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Title CHANGING WORLD AGRICULTURAL TRADE

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For many years, the United States has been the world's largest producer and exporter of agricultural products. That position is not likely to be seriously threatened in the immediate future, but important changes are occurring in world agricultural trade that have significant implications for U.S. agriculture.

THE BACKGROUND

Exports have become increasingly important to U.S. farm income. The United States exports the production from one of three harvested acres. Over the past 10 years we have exported about two-thirds of our rice production, half our wheat and soybeans, a third of our cotton, and a fourth of our corn.

Farm product exports generate domestic employment, stimulate income and have contributed over \$10 billion to the U.S. balance of trade in each of the past four years.

U.S. agricultural exports are equally important to the world's economy. The United States consistently accounts for a much larger portion of world agricultural trade than it does of world agricultural production.

We generally account for more than half the world's trade in coarse grains and soybeans, though we produce less than a third of the world's coarse grains and only 40 percent of world soybeans; two-fifths of cotton and wheat trade, but only a sixth of world production; and 20-30 percent of rice trade, but only 2 percent of world output.

The United States also holds a fourth to a half of all world grain stocks. We are accounting for about 44 percent this year--much more than policymakers believe prudent for the United States to hold.

CHANGING DEMAND PATTERNS

There has been a sharp rise in the volume of U.S. agricultural exports over the past decade. In addition, subtle transitions have occurred in the sources and composition of foreign demand for U.S. farm products.

--An increasing share of our commercial agricultural exports is going to developing nations and to centrally planned nations such as the Soviet Union, Poland, Romania, and Yugoslavia. The centrally planned countries have doubled their share since the 1960's and the developing country proportion has also risen substantially.

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--While the volume of U.S. wheat shipments to developing countries has increased by more than a fourth since the early 1960's, there has been a remarkable shift in the mix of commercial sales and concessional sales. Two-thirds of all our wheat exports to the developing countries during 1961-65 were under food aid programs, compared with one-tenth during 1971-75.

--Food products have continued to account for half of U.S. agricultural exports since the early 1960's, but the composition of the remainder has changed radically. Cotton and tobacco made up a fifth of our exports during 1960-64, as did feedgrains and soybeans. Since then, cotton and tobacco's share have dropped 50 percent, and the feedgrain and soybean share has nearly doubled. Expansion in exports of soybeans and feedgrains accounted for nearly half the growth in U.S. farm exports--from about \$5 billion in 1960-64 to nearly \$27 billion in 1978.

--U.S. exports to some markets, particularly the Soviet Union and the Peoples' Republic of China (PRC) have grown in importance but have fluctuated tremendously. The Soviet Union bought \$18 million worth of farm products from the U.S. in 1970, \$12 million in 1971, \$954 million in 1973, \$410 million in 1975 and \$1.1 billion in 1977. China went from \$800 million in 1975 to \$44,000 in 1976 to \$64 million in 1977.

These changes figure substantially in the demand outlook for U.S. farm products and have confronted the United States with severe challenges: To maintain a high volume of exports to our traditional markets; to increase exports to growing markets in less developed and centrally planned areas; and to achieve more stable export growth.

TRADITIONAL MARKETS

The largest among our traditional markets is the European Community. Though it is close to self-sufficiency in food grains, the EC has had to import increasing quantities of feed grains and protein to satisfy its rapidly growing demand for livestock products.

Rising incomes in Japan, as in the European Community, have driven up demand for meat and for feed imports to produce it. Early post-World War II relief shipments of U.S. wheat to Japan influenced consumer preferences and helped create a market that formerly had demanded only rice. In recent years, however, Japanese demand for U.S. feedgrains and soybeans has been growing faster than its demand for wheat.

Another traditional market, India, has grown from a major food-aid recipient during the 1960's to a major commercial importer of U.S. grains in the 1970's. India's normally large demand for U.S. grain, however, has dropped off recently. Favorable monsoons have yielded excellent harvests the past three years allowing India to build up its stocks. India, in fact, became a net exporter of grain last year.

The outlook is mixed for sales to our traditional markets. Though we do not expect substantial gains in volume of exports in the next several years, we should see some gains in value as consumers there demand higher quality foods, especially meat and meat products. Foreign trade will remain vital to Japan and the EC since neither has much potential to expand domestic production to meet the growing demand.

Japanese trade policies have been generally favorable to agricultural imports from the United States. This is likely to continue as Japan attempts to reduce its massive overall trade surplus.

The United States seriously undermined its reliability as a supplier when it embargoed soybean exports in 1973. Japan has since developed additional sources for oilseed and feed supplies.

The EC is less accessible to U.S. exporters because of the Community's Common Agricultural Policy, which is designed to protect the income of their domestic producers. Imports of grains are limited by levies and duties, though soybean imports are not. Maintaining access to EC markets will be a prime concern for U.S. grain and soybean producers for the next several years.

GROWTH MARKETS

The surest potential for growth of U.S. farm exports is in the two fastest growing markets, the Mideast and Eastern Europe.

Developing, oil exporting nations in the Mideast and elsewhere are spending a large share of their rising foreign exchange earnings on food imports--mainly animals, animal products, feedgrains, and oilseeds. Most of these nations have limited productive capacity for agriculture. As long as incomes in oil-exporting areas continue to rise, so will their demand for meat and for U.S. animal and feed products.

The growth in the East European market has been similar to the Mideast's in composition. As in the USSR, governments have felt consumer pressure to improve diets, particularly through increased meat consumption. The inability of Soviets to satisfy their increased feed and livestock demand has forced East European governments to turn westward and provide freer access to U.S. farm commodities. Sales to Eastern Europe should increase, over the short run, at least.

ERRATIC MARKETS

The United States' two sporadic markets--the Soviet Union and the Peoples' Republic of China--loom as major question marks in our farm export future.

The Soviet Union has been our most erratic market. The fluctuation of Soviet purchases has caused wide price variations and has been the single most destabilizing factor on the world grain market this decade.

A five-year bilateral grain agreement, which expires in 1980, is taking some unpredictability out of our grain trade with the Soviets. The Soviets guarantee the United States a minimum six-million ton market every year. In addition, there is a provision that USDA be notified in advance if purchases will exceed eight million tons. As a safety provision, the U.S. also need not honor the minimum-sale amount in the event of a disastrous U.S. crop.

Other provisions of the grain agreement call for increased exchange of information with the Soviets, which should help prevent a repetition of past mistakes in forecasting Soviet harvests on minimal data.

Traditionally, we have had even less data on the PRC.

Last year's crop in the PRC was apparently poor. The Chinese are importing close to 10 million tons of grain from various sources this year, roughly 50 percent more than any year in the past decade. The PRC stopped grain purchases from the United States after some quality problems in 1974, but turned to us this year for about one million tons of wheat after other exporting countries sold out their supplies. We have no bilateral agreement with the Chinese, so their purchases from the United States are likely to continue to be sporadic for some time.

INCREASING COMPETITION

U.S. farm production has almost always been large enough to permit--indeed compel--sizable exports. In fact, carryover stocks of wheat and coarse grains at the beginning of June 1978 were the highest since the early 1960's. This supply situation underscores the importance of another key change in the world agricultural situation in the past several years: Competition for some of our major foreign markets has become tougher and more widespread.

Brazilian soybeans, Malaysian palm oil, Thai corn, and Pakistani cotton are examples of new products that have joined traditional U.S. competitors in world markets.

World demand for food will continue to grow as population and incomes rise. And so will competition.

TRADITIONAL COMPETITORS

Our most important traditional competitors for grain markets are Canada, Australia, Argentina, and South Africa. All four governments directly control agricultural trade through some form of national marketing board, whereas the private enterprise concept prevails in the U.S. With the exception of certain sales to the USSR, the only requirement imposed on our traders is that they notify the government of export sales following the sale. Marketing boards provide price guarantees, generally set a limit on prices paid to farmers and sometimes undercut competitors by subsidizing their own exports when supplies are large.

The world grain supply situation this year illustrates the advantage that government-contributed marketing boards can have. World grain stocks at the beginning of this summer were slightly higher than at the same time last year and the highest in nearly a decade. A breakdown between the U.S. and foreign stocks, however, shows that while foreign stocks dropped about 25 percent, U.S. stocks rose by the same proportion. Some foreign purchasers turned to the U.S. only after less expensive supplies sold through marketing boards were exhausted.

Since U.S. farmers face no price constraints, the freedom they enjoy in the marketplace is tempered by this country's function as residual supplier for world markets, wherein foreign purchasers buy U.S. farm products only after less expensive supplies are exhausted. This makes us the prime adjuster of production and stocks as conditions warrant. Current domestic and interna-

tional U.S. policies are aimed at spreading the burden of supply adjustment more equitably among nations.

NEW COMPETITORS

Foreign governments are responsible for much of the growing competition. Developing countries see their agriculture as a source of foreign exchange, particularly to pay high petroleum import bills. They exploit comparative advantages in land resources, climate, and labor availability.

The prime example of an awakening agricultural giant is Brazil, which has shifted from a two cash-crop exporter (coffee, sugar) to a multi-crop food exporter. The most dramatic growth has been in soybeans. With some help from Japan which was looking for additional sources of supply, Brazil expanded its soybean output from about one million tons in 1970 to more than 12 million in 1977. Last year Brazil was the world's third largest soybean producer and second biggest exporter. It has been eating into the U.S. share of the EC market.

Brazil is now also exporting corn and cotton and is nearing self-sufficiency in wheat. It used less than half-a-million tons of fertilizer a decade ago, but used 2.6 million in 1977, thanks mainly to government incentive programs. Brazil is one of the few nations with vast untapped resources of arable land. It is likely to step up its competition with the U.S.

The U.S. also faces increasingly tough competition for oilseed markets. Indonesia and Malaysia now exports enough palm oil to compete with U.S. soybean oil. Argentina is exporting increasing amounts of sunflower seed oil.

The transition for most food-deficit developing countries is quite difficult, however. Even in areas where land and climate are suitable for efficient agricultural production, great cultural, economic and political obstacles often remain. Many countries are restricted by traditional land-tenure systems and cultural practices, lack of marketing facilities and cheap-food policies for urban areas.

Looking at the longer term prospects for export competition, two key questions emerge: What is the likelihood of our competitors achieving something close to U.S. grain yields? And, what potential do other exporters have for expanding their cropland?

The answers involve conjecture and vary from country to country. The more developed of our competitors--Canada, Australia, and South Africa--like the United States, already have the technology and inputs to maximize their yields. The difference is in the climate: Canada is colder, Australia and South Africa more arid.

The big yields in our optimal wheat growing areas, mainly the Central Plains, bring the U.S. average way up. And no country in the world can duplicate our Corn Belt. The combination of consistently good weather over a large area of fertile soil and optimal inputs of hybrid seed, fertilizer and pesticides produces corn yields triple those of some competitor countries.

The three developed-country competitors could increase their grain acreage somewhat over the short term by leaving less land fallow or switching from other crops. However, none has substantial tracts of idle, arable land they could bring into grain production. Barring any great technological breakthrough on yields, then, it is unlikely that Canada, Australia or South Africa will substantially increase their grain output over the next several years.

The situation is different, though, with our three less developed competitors. There is considerably more chance of improvement in yields in Argentina, Brazil, and Thailand, and both our Latin American rivals have fairly large untapped land resources.

With reasonably good weather, Argentina can achieve some of the highest grain yields among U.S. competitors. And this is without much of the technological advances employed in the United States. With wider use of hybrid grain varieties and inputs such as fertilizer, Argentina could approach U.S. yield levels in good years. A key factor here, as in other developing countries, will be the extent to which government policies are geared to encouraging agricultural production and exports.

Besides its potential for considerable yield increases, Brazil probably has the world's highest potential for expanding farm acreage. The agricultural potential of the lush, teeming Brazilian jungle is difficult to assess. Progress has been slow and success will depend on efforts to overcome soil problems that occur after land has been reclaimed. The Brazilian Government apparently is willing to make the large investments required to develop new acreage, which makes Brazil the biggest threat to U.S. grain and soybean export markets over the long run.

Thailand's production potential rests almost entirely on yield improvements. Though the Thais have tripled corn plantings over the past decade, most expansion has been to marginal land. Even that land is nearly depleted. The government is committed to expanding agricultural output and is an aggressive seller--Thailand led the world in rice exports in 1977 and is making inroads in the Japanese and EC feed-grain markets. Japanese support has helped Thailand become a major exporter of corn.

One area to watch is the Sudan. There is potential for commercial agriculture in the Nile Valley but until recently the Sudan lacked capital to exploit it. Arab countries are now investing heavily there, with the hope of making the Sudan the breadbasket for the Mideast in a decade or so.

MEETING THE CHALLENGE

World wheat and coarse grain trade has doubled since the early 1960's, to 168 million tons in 1977/78, and U.S. grain exports have grown two-and-a-half times over the same period.

A continuation of the trend over the past 15-20 years would expand U.S. exports of wheat and coarse grains from 1977/78's 80 million tons to more than 90 million in 5 years. The trend drawn from the past 10 years would spell even sharper export growth.

Foreign demand is growing, but so is competition to meet that demand. There are several factors that will weigh heavily in the United States' success in maintaining its current rate of export growth: domestic and international policies, international trade and commodity agreements, U.S. market development programs, international monetary fluctuations, and U.S. market intelligence efforts.

DOMESTIC POLICIES

Increased interdependence in the world food situation means domestic farm income and price policies have a larger impact internationally than ever. National programs that go too far to help farmers' income in the short run, for example through sharply higher loan and target prices, are likely to make U.S. farm products less competitive on world markets. Though local farm prices would be higher, the longer term effect of reduced export demand would be a lower volume of sales and ultimately little change in farm income.

Domestic income and price policies must be delicately balanced to keep U.S. farmers in business and maintain their competitiveness in world markets. The key to current policy is the farmer-owned grain reserve that offers farmers incentive payments to pull excess supplies off the market. In addition to bolstering domestic prices with minimal government intervention, the reserve enhances U.S. reliability as an export supplier and moderates world price fluctuation.

INTERNATIONAL POLICIES

Closely related to the domestic reserve program is U.S. participation in efforts to establish an international grain reserve. The reserve would modify price variation, which in recent poor crop years have priced some of the lowest income nations out of the world food market. It would also guarantee supplies in event of extreme shortfalls. Unfortunately, talks in the United Nations' International Wheat Council have stalled because of disagreement on price levels and on reserve size and location.

Meanwhile, the U.S. is moving to establish on its own a six million-ton international emergency grain reserve that would be tapped only to provide supplies for critically food-deficit areas.

INTERNATIONAL TRADE AND COMMODITY AGREEMENTS

The United States is participating in forums such as the Multilateral Trade Negotiations and the General Agreement on Tariffs and Trade to reduce international barriers to agricultural trade. Progress in the multinational groups has been slow. The participants are committed to trade liberalization but few seem willing to make significant concessions.

The most progress in trade liberalization is being made bilaterally. The U.S. has entered long-term agreements with Russia and Japan that specify minimum and maximum yearly export levels for the major commodities. We have also set up less formal purchase arrangements with Poland,

Israel, Taiwan, and Norway. The bilateral agreements are beneficial in that they guarantee markets in years of oversupply and help stabilize world trade.

The benefits of some international commodity arrangements are less clear-cut. A trend in the developing world toward establishing international marketing groups for commodities such as coffee and sugar could benefit those nations economically in the short run but such agreements retard progress toward trade liberalization overall.

There is talk of a wheat-exporting nations' answer to OPEC. But such an arrangement is untenable morally, or practically, because of availability of other food sources and untapped production potential in many areas.

U.S. MARKET DEVELOPMENT PROGRAMS

The United States spends relatively far less on agricultural market development than its major competitors. On the basis of percent of farm export earnings, Israel spent 15 times more and Australia 11 times more in 1976. Funding for market development comes mainly from the private sector, and has risen 15 percent in 1978. The Agricultural Trade Act of 1978, now before Congress, would increase government expenditures on export promotion. A less direct support of market development comes from our international technical cooperation programs. The production assistance we give poorest developing countries tends to increase local productivity and income, reduce dependence on food aid and builds demand for commercial imports. Taiwan and South Korea are examples of food aid recipients that grew into major commercial markets.

MARKET INTELLIGENCE

To improve U.S. farmers' competitive positions in world markets, USDA is upgrading its mechanism for gathering, analyzing and disseminating market information. The World Food and Agricultural Outlook and Situation Board was created last year to coordinate the department's economic analysis on the world market.

Its goal is to improve the consistency, reliability and objectivity of USDA's outlook and speed the flow of that information to producers and the general public. The board is also setting up a global weather center to enhance the reporting and understanding of weather developments on world crop production.

This paper was prepared with information developed by the World Food and Agricultural Outlook and Situation Board, U.S. Department of Agriculture.